

LESLIE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2017

LESLIE COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits  
Members of Leslie County Board of Education  
Hyden, Kentucky

***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School District's Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Leslie County School District, as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and pension supplemental reporting on pages 4-9 and 45-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

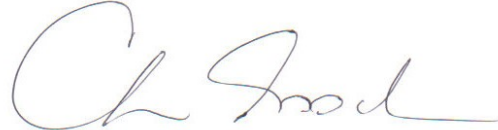
#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leslie County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2017, on our consideration of the Leslie County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leslie County School District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 6, 2017

LESLIE COUNTY SCHOOL DISTRICT  
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2017

As management of the Leslie County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

**FINANCIAL HIGHLIGHTS**

- The end of year cash balance was \$1,337,049. Of this amount, \$129,271 was deposited in separate activity fund checking accounts, \$21,854 was considered restricted for future construction. The beginning cash balance, for the District was \$1,993,559, for which \$195,621 was restricted for future construction. Also included is \$142,399 activity fund cash.
- Total federal expenditures as reflected on the schedule of expenditures of federal awards for year ended June 30, 2017 was \$3,663,026 and for June 30, 2016 was \$3,496,033.
- Interest revenue totaled \$12,651 for the current year ended and for the prior year the total interest revenue was \$14,132.
- The District's total long-term debt activity reflects new financing to acquire two school buses, \$179,770.
- The District's long-term debt reductions were \$1,469,255 for the fiscal year end.
- Total 2016 general fund revenue was \$11,064,678 exclusive of on behalf state payments totaling \$2,839,855 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. Excluding on behalf payments, there was \$11,298,101 in general fund expenditures.
- Total 2017 general fund revenue was \$10,430,185 exclusive of on behalf state payments totaling \$2,907,531 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. Excluding on behalf payments, there was \$11,174,638 in general fund expenditures.

LESLIE COUNTY SCHOOL DISTRICT  
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2017

**OVERVIEW OF FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide financial statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

**Fund financial statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

LESLIE COUNTY SCHOOL DISTRICT  
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2017

**Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2017, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,671,177.

The greatest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**Net position for the year ended June 30, 2017**

Following are comparisons of governmental net position:

	At June 30,	
	<u>2017</u>	<u>2016</u>
Current assets	2,093,111	2,536,536
Noncurrent assets	36,258,735	36,674,681
Deferred outflows of resources	<u>740,624</u>	<u>854,728</u>
<u>Total assets and deferred outflows of resources</u>	<u>39,092,470</u>	<u>40,065,945</u>
Current liabilities	2,867,378	2,875,850
Noncurrent liabilities	26,459,865	27,333,756
Deferred inflows of resources	<u>94,050</u>	<u>481,940</u>
<u>Total liabilities and deferred inflows of resources</u>	<u>29,421,293</u>	<u>30,691,546</u>
- Net position -		
Net investment in capital assets	13,426,763	12,785,891
Restricted	654,827	352,928
Unrestricted (deficit)	<u>(4,410,413)</u>	<u>(3,764,420)</u>
<u>Total net position</u>	<u>9,671,177</u>	<u>9,374,399</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>39,092,470</u>	<u>40,065,945</u>

LESLIE COUNTY SCHOOL DISTRICT  
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2017

The comparison reflects the following:

- Cash and cash equivalents decreased \$636,074 from prior year.
- Reduction in non-current assets reflects \$965,794 in depreciation expense.
- Noncurrent liabilities include debt reduction of \$1,469,255.
- The deficit unrestricted net position balance at June 30, 2017 is primarily the result of recognition of CERS unfunded net pension liability in the amount of \$4,609,016.

**Comments on budget comparisons**

The following table presents a comparison of budget to actual for the general fund:

	<u>Final</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
From local sources			
Taxes	3,076,325	2,588,436	(487,889)
Earnings on investments	10,000	9,297	(703)
Other local revenue	47,000	57,833	10,833
Intergovernmental - state	10,789,478	10,648,144	(141,334)
Intergovernmental - indirect federal	<u>25,000</u>	<u>34,006</u>	<u>9,006</u>
<u>Total revenues</u>	<u>13,947,803</u>	<u>13,337,716</u>	<u>(610,087)</u>
Expenditures:			
Instructional	7,545,965	7,492,333	53,632
Student support services	949,273	824,434	124,839
Staff support services	760,773	671,163	89,610
District administration	322,785	416,268	(93,483)
School administration	980,989	965,671	15,318
Business support	231,936	235,346	(3,410)
Plant operation and management	1,792,123	1,689,126	102,997
Student transportation	1,363,480	1,444,446	(80,966)
Community service activities	7,155	11,153	(3,998)
Employee benefits	134,969	164,103	(29,134)
Debt service	190,726	175,434	15,292
Contingency	<u>685,761</u>	<u>-</u>	<u>685,761</u>
<u>Total expenditures</u>	<u>14,965,935</u>	<u>14,089,477</u>	<u>876,458</u>
Excess (deficit) of revenue over expenditures	<u>(1,018,132)</u>	<u>(751,761)</u>	<u>266,371</u>

LESLIE COUNTY SCHOOL DISTRICT  
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2017

- Actual revenues and expenditures reflect state on-behalf payments for retirement, health and life insurance and technical education in the amount of \$2,907,531.
- Current year general fund real property tax revenue was \$1,912,621 for the fiscal year ended included unmined mineral tax revenue of \$391,397. Prior year general fund real property tax revenue was \$2,493,083 including \$969,755 in unmined mineral tax revenue.

The following table presents a summary comparison of statement of activities for the fiscal years ended June 30, 2017 and 2016:

	At June 30,	
	<u>2017</u>	<u>2016</u>
Revenues:		
Local revenue sources	4,157,954	4,246,667
State revenue sources	16,988,601	15,017,479
Federal revenue	<u>3,828,201</u>	<u>3,653,838</u>
<u>Total revenues</u>	<u>24,974,756</u>	<u>22,917,984</u>
Expenses:		
Instruction	12,948,169	11,649,430
Student support services	1,152,452	1,038,141
Instructional support	1,112,545	1,089,658
District administration	525,830	487,893
School administration	1,214,017	1,042,955
Business support	367,585	308,765
Plant operation and management	3,142,252	3,016,544
Student transportation	1,951,161	1,771,117
Community support and other	395,198	548,325
Food service operations	1,338,123	1,369,896
Interest on long-term debt	<u>530,646</u>	<u>978,231</u>
<u>Total expenses</u>	<u>24,677,978</u>	<u>23,300,955</u>
<u>Change in net position</u>	<u>296,778</u>	<u>(382,971)</u>

LESLIE COUNTY SCHOOL DISTRICT  
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2017

- 2017 state revenue sources and related expenses reflect on-behalf adjustment recognition for the difference in the State's proportionate share of plan pension expense and on-behalf payments made by the State for the fiscal year.
- Depreciation expense was \$965,794 for the current year and \$968,130 for the prior year.

**BUDGETARY IMPLICATIONS**

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$685,761 in contingency (4.57%).

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 672-2397.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSTIONAt June 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Assets:</b>			
- Current assets -			
Cash and cash equivalents	631,873	575,905	1,207,778
Accounts receivable:			
Taxes - current	394,743	-	394,743
Taxes - delinquent	14,676	-	14,676
Other	23,842	-	23,842
Intergovernmental - indirect federal	413,688	7,377	421,065
Inventories	-	31,007	31,007
<u>Total current assets</u>	<u>1,478,822</u>	<u>614,289</u>	<u>2,093,111</u>
- Noncurrent assets -			
Bond discounts	101,372	-	101,372
Capital assets - non-depreciable	12,232,755	-	12,232,755
Capital assets - depreciable (net)	22,563,001	1,361,607	23,924,608
<u>Total noncurrent assets</u>	<u>34,897,128</u>	<u>1,361,607</u>	<u>36,258,735</u>
<b>Deferred Outflows of Resources</b>			
Deferred outflows - pension resources	659,970	80,654	740,624
<u>Total assets and deferred outflows of resources</u>	<u>37,035,920</u>	<u>2,056,550</u>	<u>39,092,470</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSTION (Continued)At June 30, 2017

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>Liabilities:</b>			
- Current liabilities -			
Accounts payable	374,218	2,819	377,037
Current portion of KSBIT payable	59,987	-	59,987
Current portion of bond/lease obligations	1,420,560	-	1,420,560
Interest payable	541,808	-	541,808
Unearned revenues governmental sources	467,986	-	467,986
<u>Total current liabilities</u>	<u>2,864,559</u>	<u>2,819</u>	<u>2,867,378</u>
- Noncurrent liabilities -			
Long term portion of sick leave payable	393,241	-	393,241
Long term portion of KSBIT payable	588,004	-	588,004
Noncurrent portion of bond/lease obligations	20,602,771	-	20,602,771
Bond premiums	266,833	-	266,833
Net pension liability	4,107,094	501,922	4,609,016
<u>Total noncurrent liabilities</u>	<u>25,957,943</u>	<u>501,922</u>	<u>26,459,865</u>
 <u>Total liabilities</u>	 <u>28,822,502</u>	 <u>504,741</u>	 <u>29,327,243</u>
 <b>Deferred Inflows of Resources:</b>			
Deferred inflows of resources - pension related	83,807	10,243	94,050
 <b>Net position:</b>			
Net investment in capital assets	12,065,156	1,361,607	13,426,763
Restricted for:			
Other	43,357	611,470	654,827
Unrestricted (deficit)	(3,978,902)	(431,511)	(4,410,413)
<u>Total net position</u>	<u>8,129,611</u>	<u>1,541,566</u>	<u>9,671,177</u>
 Total liabilities, deferred inflow of <u>resources and net position</u>	 <u>37,035,920</u>	 <u>2,056,550</u>	 <u>39,092,470</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIESFor the Year Ended June 30, 2017

		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	<u>Expenses</u>			
<b>FUNCTIONS/PROGRAMS:</b>				
- Governmental activities -				
Instructional	12,948,169	-	(7,511,706)	-
Support services:				
Student	1,152,452	-	(910,594)	-
Instructional staff	1,112,545	-	(518,362)	-
District administration	525,830	-	(60,307)	-
School administration	1,214,017	-	(644,063)	-
Business support	367,585	-	(255,595)	-
Plant operation and maintenance	3,142,252	-	(318,923)	-
Student transportation	1,951,161	-	(847,660)	-
Community services operations	279,730	-	(211,354)	-
Other	115,468	-	-	-
Interest on long-term debt	530,646	-	-	-
<b><u>Total governmental activities</u></b>	<u>23,339,855</u>	<u>-</u>	<u>(11,278,564)</u>	<u>-</u>
- Business-type activities -				
Food service	1,338,123	(151,496)	(1,242,502)	-
<b><u>Total business-type activities</u></b>	<u>1,338,123</u>	<u>(151,496)</u>	<u>(1,242,502)</u>	<u>-</u>
<b><u>Total primary government</u></b>	<u>24,677,978</u>	<u>(151,496)</u>	<u>(12,521,066)</u>	<u>-</u>

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIES (continued)For the Year Ended June 30, 2017

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental</u>	<u>Business-</u>	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
		<u>Activities</u>	
	(5,436,463)	-	(5,436,463)
	(241,858)	-	(241,858)
	(594,183)	-	(594,183)
	(465,523)	-	(465,523)
	(569,954)	-	(569,954)
	(111,990)	-	(111,990)
	(2,823,329)	-	(2,823,329)
	(1,103,501)	-	(1,103,501)
	(68,376)	-	(68,376)
	(115,468)	-	(115,468)
	<u>(530,646)</u>	<u>-</u>	<u>(530,646)</u>
	<u>(12,061,291)</u>	<u>-</u>	<u>(12,061,291)</u>
	<u>-</u>	<u>55,875</u>	<u>55,875</u>
	<u>-</u>	<u>55,875</u>	<u>55,875</u>
	<u>(12,061,291)</u>	<u>55,875</u>	<u>(12,005,416)</u>
<b>General revenues and transfers:</b>			
Taxes	3,844,157	-	3,844,157
Investment earnings	9,297	3,354	12,651
State and formula grants	8,295,736	-	8,295,736
Miscellaneous	149,650	-	149,650
Transfers in (out)	<u>66,787</u>	<u>(66,787)</u>	<u>-</u>
<b><u>Total general revenues and transfers</u></b>	<u>12,365,627</u>	<u>(63,433)</u>	<u>12,302,194</u>
Change in net position	304,336	(7,558)	296,778
Net position - beginning	<u>7,825,275</u>	<u>1,549,124</u>	<u>9,374,399</u>
Net position - ending	<u><u>8,129,611</u></u>	<u><u>1,541,566</u></u>	<u><u>9,671,177</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTBALANCE SHEET – GOVERNMENTAL FUNDSAt June 30, 2017

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets and resources:</b>				
Cash and cash equivalents	531,357	72,020	28,496	631,873
Investments	-	-	-	-
Accounts receivable:				
Taxes - current	394,743	-	-	394,743
Taxes - delinquent	14,676	-	-	14,676
Other	23,842	-	-	23,842
Intergovernmental - indirect federal	<u>14,068</u>	<u>399,620</u>	<u>-</u>	<u>413,688</u>
 <u>Total assets</u>	 <u>978,686</u>	 <u>471,640</u>	 <u>28,496</u>	 <u>1,478,822</u>
<b>Liabilities:</b>				
Accounts payable	370,564	3,654	-	374,218
Advances from grantors	<u>-</u>	<u>467,986</u>	<u>-</u>	<u>467,986</u>
 <u>Total liabilities</u>	 <u>370,564</u>	 <u>471,640</u>	 <u>-</u>	 <u>842,204</u>
<b>Fund balance</b>				
Restricted - other	-	-	21,854	21,854
Assigned fund balance	16,861	-	6,642	23,503
Unassigned fund balance (deficit)	<u>591,261</u>	<u>-</u>	<u>-</u>	<u>591,261</u>
 <u>Total fund balances</u>	 <u>608,122</u>	 <u>-</u>	 <u>28,496</u>	 <u>636,618</u>
 <u>Total liabilities and fund balances</u>	 <u>978,686</u>	 <u>471,640</u>	 <u>28,496</u>	 <u>1,478,822</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONAt June 30, 2017

Total fund balances per fund financial statements	636,618
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net position.	34,795,756
Discounts on bonds are not recognized in fund financial statements	101,372
Deferred outflows on refunded debt and pension resources are reported in government wide financial statements but not in fund financial statements.	659,970
Long-term sick leave payable is not recognized in the fund financial statements.	(393,241)
Certain liabilities (such as bonds payable and KSBIT payable are not reported in this fund financial statement because they are not due and payable, and related interest, but are presented in the statement of net position.	(23,213,130)
Net pension obligations are not due and payable in the current period, and therefore, are not reported in the fund financial statements.	(4,107,094)
Premiums on bonds are not recognized in fund financial statements.	(266,833)
Deferred inflows of resources related to pensions are not reported in the fund financial statements.	<u>(83,807)</u>
Net position for governmental activities	<u><u>8,129,611</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes	2,588,436	-	1,255,721	3,844,157
Earnings on investments	9,297	-	-	9,297
Other local revenue	57,833	88,160	3,658	149,651
Intergovernmental - state	10,648,144	1,064,691	777,063	12,489,898
Intergovernmental - indirect federal	34,006	2,551,693	-	2,585,699
<b><u>Total revenues</u></b>	<u>13,337,716</u>	<u>3,704,544</u>	<u>2,036,442</u>	<u>19,078,702</u>
<b>Expenditures:</b>				
Instructional	7,492,333	2,949,854	1,995	10,444,182
Student support services	824,434	92,266	-	916,700
Staff support services	671,163	212,810	984	884,957
District administration	416,268	-	-	416,268
School administration	965,671	-	-	965,671
Business support	235,346	55,623	-	290,969
Plant operations and maintenance	1,689,126	48,963	-	1,738,089
Student transportation	1,444,446	159,304	-	1,603,750
Community service activities	11,153	211,354	-	222,507
Other operating expenses	-	2,677	-	2,677
Employee benefits	164,103	-	-	164,103
Capital outlay	-	-	208,454	208,454
Debt service:				
Principal	113,277	-	1,292,356	1,405,633
Interest	62,157	-	576,810	638,967
<b><u>Total expenditures</u></b>	<u>14,089,477</u>	<u>3,732,851</u>	<u>2,080,599</u>	<u>19,902,927</u>
Excess (deficit) of revenues over expenditure:	<u>(751,761)</u>	<u>(28,307)</u>	<u>(44,157)</u>	<u>(824,225)</u>
<b>Other financing sources (uses):</b>				
Bond proceeds and other debt financing	179,770	-	-	179,770
Operating transfers in	229,668	31,605	1,199,438	1,460,711
Operating transfers out	(61,728)	(3,298)	(1,328,898)	(1,393,924)
<b><u>Total other financing sources (uses)</u></b>	<u>347,710</u>	<u>28,307</u>	<u>(129,460)</u>	<u>246,557</u>
Changes in fund balance	(404,051)	-	(173,617)	(577,668)
<b>Fund balance - July 1, 2016 - restated</b>	<u>1,012,173</u>	<u>-</u>	<u>202,113</u>	<u>1,214,286</u>
<b>Fund balance - June 30, 2017</b>	<u><u>608,122</u></u>	<u><u>-</u></u>	<u><u>28,496</u></u>	<u><u>636,618</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2017

(577,668)

Amounts reported for governmental activities in the statement of activities  
differences:

Governmental funds report capital outlays as expenditures. However, in the  
statement of activities, the cost of those assets are allocated over their  
estimated useful lives as depreciation expense.

Capital outlays reported in fund financial statements	557,391
Depreciation recorded in government wide financial statements	(901,308)

Interest expense on long-term debt is recognized in the fund financial statements when paid and accrued in the government wide financial statements of activities.	91,826
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Accrued sick leave is recognized when incurred in the fund financial statements.	51,312
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Amortization expense on refunded debt is not recognized in the fund financial statements.	(7,544)
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Revenue related to premiums on bond issues are not recognized in the fund financial statements.	24,039
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Bond principal and other debt service payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.	1,388,214
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Bond proceeds are reflected as current financial resources in the fund financial statements but are stated as liabilities in the government wide financial statements.	(179,770)
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Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	<u>(142,156)</u>
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Change in net position of governmental activities	<u><u>304,336</u></u>
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LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITION – PROPRIETARY FUNDSAt June 30, 2017

	<u>Food Service Fund</u>
<b>Assets:</b>	
- Current Assets -	
Cash and cash equivalents	575,905
Accounts receivable:	
Intergovernmental - indirect federal	7,377
Inventories	<u>31,007</u>
<u>Total current assets</u>	<u>614,289</u>
- Noncurrent Assets -	
Depreciable capital assets	2,464,056
Less: accumulated depreciation	<u>(1,102,449)</u>
<u>Total noncurrent assets</u>	<u>1,361,607</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows - pension resources	<u>80,654</u>
<u>Total assets and deferred outflow of resources</u>	<u><u>2,056,550</u></u>
<b>Liabilities:</b>	
- Current Liabilities -	
Accounts payable	<u>2,819</u>
<u>Total current liabilities</u>	<u>2,819</u>
- Noncurrent liabilities -	
Net pension liability	<u>501,922</u>
<u>Total liabilities</u>	<u>504,741</u>
<b>Deferred Inflow of Resources</b>	<u>10,243</u>
<b>Net position:</b>	
Net investment in capital assets	1,361,607
Restricted - net pension liability	(431,511)
Restricted - other	<u>611,470</u>
<u>Total net position</u>	<u>1,541,566</u>
<u>Total liabilities, deferred inflow of resources and net position</u>	<u><u>2,056,550</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION – PROPRIETARY FUNDSFor the Year Ended June 30, 2017

	<u>Food service Fund</u>
<b>Operating revenues:</b>	
Lunchroom sales	151,496
State revenue	10,265
On-behalf contributions:	
Kentucky Department of Education	137,287
Commodities	73,046
Federal revenue	<u>1,021,904</u>
 <u>Total operating revenues</u>	 <u>1,393,998</u>
 <b>Operating expense:</b>	
Salaries and wages	636,804
Contract services	29,306
Materials and supplies	607,527
Depreciation	<u>64,486</u>
 <u>Total operating expenses</u>	 <u>1,338,123</u>
 <u>Operating income (loss)</u>	 <u>55,875</u>
 <b>Nonoperating revenue/(expense):</b>	
Interest income	3,354
Transfers in (out)	<u>(66,787)</u>
 <u>Total nonoperating revenue/(expense)</u>	 <u>(63,433)</u>
 <u>Change in net position</u>	 <u>(7,558)</u>
 Net position, July 1, 2016	 <u>1,549,124</u>
 Net position, June 30, 2017	 <u><u>1,541,566</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF CASH FLOWS – PROPRIETARY FUNDSFor the Year Ended June 30, 2017

	<u>Food Service Fund</u>
<b>Cash flows from operating activities:</b>	
Cash received from:	
Lunchroom sales	151,496
State revenue	10,265
Federal revenue	1,023,313
Cash paid to/for:	
Employees	(482,144)
Supplies/Contractual	<u>(559,140)</u>
<u>Net cash provided (used) by operating activities</u>	<u>143,790</u>
<b>Cash flows from capital and related financing activities:</b>	
Changes in capital assets	<u>-</u>
<b>Cash flows from investing activities:</b>	
Interest income	<u>3,354</u>
<b>Cash flows from financing activities:</b>	
Indirect costs transfer	<u>(66,787)</u>
Net increase (decrease) in cash	80,357
Cash, beginning of year	<u>495,548</u>
Cash, end of year	<u><u>575,905</u></u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operations:</b>	
Operating income (loss)	55,875
Adjustments to reconcile operating income to cash provided (used) by operating activities:	
Depreciation	64,486
(Increase) decrease in deferred outflows - pension resources	12,425
Increase (decrease) in deferred inflows - pension resources	(42,240)
Increase (decrease) in net pension liability	47,188
Changes in current assets/liabilities:	
Accounts receivable	1,409
Inventories	2,959
Accounts payable	<u>1,688</u>
Net cash provided (used) by operating activities	<u><u>143,790</u></u>

Noncash transactions include \$137,287 on-behalf payments recognized for the school food service program from Kentucky Department of Education, \$73,046, donated commodities and the net effect of net pension liabilities and deferrals attributed to School Food Service fund, \$17,373.

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET POSITION – ACTIVITY FUNDSAt June 30, 2017**Assets:**

Cash and cash equivalents	129,271
Accounts receivable	<u>4,683</u>
<u>Total assets</u>	<u>133,954</u>

**Liabilities:**

Accounts payable	4,344
Due to individual student activity account funds	<u>129,610</u>
<u>Total liabilities</u>	<u>133,954</u>

**Net position:**

Restricted	<u>-</u>
<u>Total liabilities and net position</u>	<u>133,954</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTSJune 30, 2017NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Leslie County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Leslie County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Leslie County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Leslie County School District Finance Corporation – On September 11, 1990, the Leslie County, Kentucky, Board of Education resolved to authorize the establishment of the Leslie County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Leslie County Board of Education also comprise the Corporations’ Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)Basis of Presentation (continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)Basis of Presentation (continued)I. Governmental Fund Types (continued)

- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.

- (C) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

- (D) The District-wide activity fund accounts for expenditures primarily instructional in nature.

II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The School Food Service Fund is a major fund.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)Basis of Accounting (continued)

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources. On the accrual basis of accounting, unamortized deferred charges on debt refunding is reported as a deferred outflow of resources.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred inflows.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)Property Taxes (continued)

The property tax rates assessed for the year ended June 30, 2017, to finance the General Fund operations were \$.661 per \$100 valuation for real property, \$.661 per \$100 valuation for business personal property and \$.473 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are expensed as incurred.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years

Inter-fund Balances

On fund financial statements, receivables and payables resulting from short-term inter-fund loans are classified as “inter-fund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2017.

For governmental fund financial statements the portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These balances are recorded in the account "accumulated sick leave payable" in the government-wide financial statements. At June 30, 2017 the balance is -0-. No reserve for accumulated sick leave is recognized at June 30, 2017.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Cash and other assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

Inventories

Supplies and materials are charged to expenditures when purchased.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)Accrued Liabilities and Long-Term Obligations (continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

GASB 63, implemented for the previous fiscal year, has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets", consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment is reported as inter-fund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Recently Issued Accounting Pronouncements

The District implemented GASB Statement 65 which establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources provides changes in the determination of the major fund calculations and limiting the use of "deferred" in financial statements presentations.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)Recently Issued Accounting Pronouncements (continued)

GASB Statements Nos. 67 and 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement 27 and GASB Statement No. 71 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decisions-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014 and has been implemented by the District.

The District is assessing its accounting and financial reporting impact for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective for fiscal years beginning after June 15, 2017.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District's cash and cash equivalents was \$1,835,401. Of the total cash balance, \$250,000 was covered by Federal depository insurance and the balance was covered by a collateral agreement and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2017 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Hyden Citizens Bank:		
General Operating Account	1,699,715	1,207,285
Hayes Lewis Elementary	27,573	23,479
Mountain View Elementary	27,765	27,510
Leslie County High School	46,029	44,594
Stinnett Elementary	28,996	28,890
WB Muncy Elementary	5,139	4,798
Cash register lunchrooms:	-	309
US Bank:		
Construction account	184	184
<u>Total</u>	<u>1,835,401</u>	<u>1,337,049</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE C – CASH AND CASH EQUIVALENTS (continued)

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held primarily at a local financial institution. Some of the primary risks associated with these funds: a major change in interest rates; a default on a security or repurchase agreement held by the fund; proceeds from sales of collateral are less than the agreed-upon purchase price. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the School District Finance Corporation.

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Revenue Series, July 2007	8,500,000	3.70% - 4.125%
KISTA Series 2008	236,521	3.00% - 3.750%
Revenue Series, August 2009	1,200,000	1.70 % - 4.20%
Refunding Series 2009R	283,755	1.00% - 3.30%
Revenue Series, July 2011	2,425,000	1.00% - 4.25%
Revenue Series, December 2011	7,515,000	2.00% - 3.375%
QSCB Series, December 2011	4,036,000	5.00% - 5.00%
KISTA Series 2012	345,780	2.00% - 2.625%
Revenue Series 2012A	1,355,000	1.00% - 3.75%
Revenue Series 2012B	1,830,000	1.00% - 3.00%
KISTA Series 2014	165,607	2.00% - 3.00%
KISTA Series 2015	192,338	1.00% - 2.625%
Refunding Series April 1, 2016	6,125,000	3.00% - 3.00%
KISTA Series 2017	179,770	2.55% - 2.55%

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund and Building Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Leslie County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1990, the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The Leslie County School District financed two new school buses, \$179,770 via the KISTA Bond Pool Series. The debt is payable over a period of ten years and reflects an interest rate of 2.55%. The cost of issuance was \$5,346.

Debt issue costs are recognized as expenditures when incurred in governmental funds, government-wide and proprietary fund types financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations for the district, including amounts to be paid by the Commission, at June 30, 2017, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Leslie County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2017 - 18	789,817	375,275	478,669	166,533	1,810,294
2018 - 19	768,982	356,798	495,013	150,502	1,771,295
2019 - 20	779,313	338,134	505,415	135,564	1,758,426
2020 - 21	785,686	319,646	493,882	120,629	1,719,843
2021 - 22	807,134	299,889	509,579	105,604	1,722,206
2022 - 27	4,094,006	1,170,808	2,766,273	285,414	8,316,501
2027 - 32	4,710,646	487,984	464,354	15,096	5,678,080
2032 - 33	276,441	4,150	13,559	204	294,354
<u>Totals</u>	<u>13,012,025</u>	<u>3,352,684</u>	<u>5,726,744</u>	<u>979,546</u>	<u>23,070,999</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Leslie County School District Finance Corporation issued Qualified School Construction Bonds, taxable series dated December 1, 2011 having a par amount of \$4,036,000. Of this amount \$3,985,909 of the proceeds were deposited directly to the construction fund for assistance in new building facilities and renovation for an elementary school. Total bond issue costs were \$10,700. The bond was issued at a discount of \$39,391.

\$100,900 semi-annual interest payments are due every June and December through December 1, 2030. A federal tax credit for the same amount has been granted for each bondholder resulting in a subsidy/federal on-behalf payment for the School District. The action is a result of creation of qualified school construction bonds under the American Recovery and Reinvestment Act. The Act allows deferral of principal payments for up to 17 years and the creation of an escrow account as noted above. The bonds provide federal tax credits for bondholders in lieu of interest in order to significantly reduce the issuer's cost of borrowing. The OMB Compliance Supplement acknowledges Qualified School Construction Bonds passed through the U.S. Department of Education are not covered by the single audit requirements and are not required to be included in the Schedule of Federal Awards.

	QSCB Series 2011 Escrow Payment		Expected Escrow	QSCB Series 2011 Interest	
	<u>Board</u>	<u>KSFCC</u>	<u>Earnings</u>	<u>Total</u>	<u>Tax Credit</u>
2013	128,595	41,484	4,077	201,800	(201,800)
2014	127,675	42,404	8,254	201,800	(201,800)
2015	127,776	42,303	12,564	201,800	(201,800)
2016	127,863	42,216	16,955	201,800	(201,800)
2017	127,909	42,170	21,452	201,800	(201,800)
2018	127,950	42,129	26,203	201,800	(201,800)
2019	128,013	42,066	30,690	201,800	(201,800)
2020	128,101	41,978	35,504	201,800	(201,800)
2021	131,456	38,623	40,546	201,800	(201,800)
2022	131,455	38,624	45,610	201,800	(201,800)
2023	131,455	38,624	50,796	201,800	(201,800)
2024	131,456	38,623	56,263	201,800	(201,800)
2025	131,456	38,623	61,376	201,800	(201,800)
2026	131,456	38,623	67,123	201,800	(201,800)
2027	131,456	38,623	72,816	201,800	(201,800)
2028	131,456	38,623	78,655	201,800	(201,800)
2029	131,456	38,623	85,109	201,800	(201,800)
2030	128,392	41,687	90,507	201,800	(201,800)
2031	128,654	41,424	-	(100,900)	(100,900)
Subtotal	2,464,030	767,470	804,500	3,531,500	(3,733,300)
Realized	<u>(639,818)</u>	<u>(210,577)</u>	<u>(63,302)</u>	<u>(807,200)</u>	<u>807,200</u>
Future	<u>1,824,212</u>	<u>556,893</u>	<u>741,198</u>	<u>2,724,300</u>	<u>(2,926,100)</u>
Principal payment due 12/1/2030			<u>4,036,000</u>		

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Following are changes in long-term debt:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2017</u>	<u>Current</u> <u>Principal</u>
Revenue Series Sept 1996	15,000	-	15,000	-	-
Revenue Series Sept 2006	75,000	-	75,000	-	-
Revenue Series July 2007	830,000	-	405,000	425,000	425,000
KISTA Series 2008	45,091	-	22,132	22,959	22,959
Bonds Series 2009	955,000	-	50,000	905,000	50,000
KISTA Refunding Series 2009R	107,048	-	24,447	82,601	27,676
Revenue Series June 2011	2,060,000	-	80,000	1,980,000	80,000
QSCB Series December 2011	3,313,834	-	191,531	3,122,303	191,531
Revenue Series December 2011	6,295,000	-	320,000	5,975,000	320,000
KISTA Series 2012	203,189	-	34,020	169,169	34,020
Revenue Series April 2012	1,160,000	-	60,000	1,100,000	60,000
Revenue Bonds December 2012	1,645,000	-	65,000	1,580,000	65,000
KISTA Series 2014	129,395	-	15,692	113,703	15,692
KISTA Series 2015	171,489	-	20,922	150,567	20,922
Refunding Series April 2016	6,125,000	-	70,000	6,055,000	70,000
Daimler Truck Financial	182,770	-	20,511	162,259	16,194
KISTA Series 2017	-	179,770	-	179,770	21,566
<u>Total</u>	<u>23,312,816</u>	<u>179,770</u>	<u>1,469,255</u>	<u>22,023,331</u>	<u>1,420,560</u>

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
<u>Governmental Activities</u>				
Capital assets, not being depreciated:				
Land	647,757	-	-	647,757
Construction work in progress	11,553,984	31,014	-	11,584,998
Total capital assets, not being depreciated	<u>12,201,741</u>	<u>31,014</u>	-	<u>12,232,755</u>
Land improvements	300,911	-	-	300,911
Buildings and improvements	33,165,431	310,824	-	33,476,255
Technology equipment	173,261	9,148	-	182,409
Vehicles	2,820,988	206,405	-	3,027,393
General equipment	94,842	-	-	94,842
Total capital assets, being depreciated	<u>36,555,433</u>	<u>526,377</u>	-	<u>37,081,810</u>
<u>Totals at historical cost</u>	<u>48,757,174</u>	<u>557,391</u>	-	<u>49,314,565</u>
Less: accumulated depreciation				
Land and improvements	297,105	1,337	-	298,442
Buildings and improvements	11,021,892	760,865	-	11,782,757
Technology equipment	155,535	4,942	-	160,477
Vehicles	2,055,941	132,169	-	2,188,110
General equipment	87,028	1,995	-	89,023
<u>Total accumulated depreciation</u>	<u>13,617,501</u>	<u>901,308</u>	-	<u>14,518,809</u>
Governmental Activities				
<u>Capital Assets - Net</u>	<u>35,139,673</u>	<u>(343,917)</u>	-	<u>34,795,756</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE E – CAPITAL ASSETS (continued)

Capital asset activity for the fiscal year ended June 30, 2017 was as follows (continued):

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2017</u>
<u>Business-Type Activities</u>				
Buildings and improvements	1,996,576	-	-	1,996,576
Food service and equipment	<u>467,480</u>	<u>-</u>	<u>-</u>	<u>467,480</u>
<u>Totals at historical cost</u>	<u>2,464,056</u>	<u>-</u>	<u>-</u>	<u>2,464,056</u>
Less: accumulated depreciation				
Buildings and improvements	726,777	38,882	-	765,659
Food service and equipment	<u>311,186</u>	<u>25,604</u>	<u>-</u>	<u>336,790</u>
<u>Total accumulated depreciation</u>	<u>1,037,963</u>	<u>64,486</u>	<u>-</u>	<u>1,102,449</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>1,426,093</u>	<u>(64,486)</u>	<u>-</u>	<u>1,361,607</u>

Depreciation expense was allocated to governmental and proprietary functions as follows:

**Governmental functions:**

Instructional	6,989
District administration	1,995
Business support services	1,421
Plant operations and maintenance	761,367
Student transportation	<u>129,536</u>
Total depreciation expense - Governmental functions	<u>901,308</u>

**Proprietary functions:**

Food service operations	<u>64,486</u>
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NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2017, as follows:

Year ending June 30:	
2018	306,268
2019	271,243
2020	210,367
2021	71,850
2022	<u>71,850</u>
<u>Total</u>	<u>931,578</u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

**Summary of Significant Accounting Policies**

*Pensions* – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (KTRS) and additions to/deductions from KTRS's fiduciary net position have been determined on the same basis as they are reported by KTRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**General Information about the Pension Plan**

*Plan Description* – Teaching-certified employees of the Leslie County School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)-a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at [http://www.ktrs.ky.gov/05\\_publications/index.htm](http://www.ktrs.ky.gov/05_publications/index.htm).

*Benefits Provided* – For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

*Contributions* – Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university members are required to contribute 12.855% of their salaries to the System. University members are required to contribute 10.4% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 8.185% of their salary to KTRS.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE G – RETIREMENT PLANS (continued)

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.865% of salaries for members. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

**Medical Insurance Plan**

*Plan Description* – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

*Funding policy* – In order to fund the post-employment healthcare benefit, seven and one-half percent (7.5%) of the gross annual payroll of members before July 1, 2008 is contributed. Three and three quarters percent (3.75%) is paid by member contributions and three quarters percent (.75%) from state appropriation and three percent (3.00%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

**Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:**

At June 30, 2017, Leslie County School District did not report a net pension liability for its proportionate share of the net pension liability because the State of Kentucky provides the pension support directly to KTRS on behalf of the District. The total portion of the net pension liability that was associated with the District was as follows:

State's proportionate share of the	
net pension liability associated with the	
District	\$ <u>69,197,223</u>

The net pension liabilities were measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportionate share was .2346% for KTRS.

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

NOTE G – RETIREMENT PLANS (continued)

For the year ended June 30, 2017, the District's government-wide financial statements reported KTRS proportionate share of pension expense of \$5,637,283. The District recognized no deferred outflows of resources, deferred inflows of resources or unfunded pension liability related to KTRS.

*Actuarial assumptions* – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Significant assumptions used in the KTRS valuation were as follows:

- Investment rate of return – 7.5%, net of pension plan investment expense, including inflation.
- Projected salary increases – 4.00 – 8.20%, including inflation
- Inflation rate – 3.5%
- Municipal bond Index Rate – 3.01%
- Single Equivalent Interest Rate – 4.20%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2017.

The long term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS' investment consultants is summarized in the following table:

<u>Asset Class</u>	<u>KTRS Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
	100.0%	

*Discount rate* – The discount rate used to measure the total pension liability as of the measurement date was 4.20%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67 and assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2039 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE G – RETIREMENT PLANS (continued)

the Measurement Date of 4.20% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.01%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

The following table presents the net pension liability –proportionate share, calculated using the discount rate of 4.20%, as well as what the Commonwealth's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.20%) or 1 percentage point higher (5.20%) than the current rate:

	<b>1% Decrease (3.20%)</b>	<b>Current Discount Rate (4.20%)</b>	<b>1% Increase (5.20%)</b>
Commonwealth's proportionate share of			
District pension liability	\$ 84,890,184	\$ 69,197,223	\$ 56,317,600

*Pension plan fiduciary net position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued KTRS financial report.

**County Employees Retirement System**

*Plan Description:* Substantially all full-time classified employees of the District participate in the County Employees Retirement System (CERS). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (505) 564-4646 or at <https://kyret.ky.gov>.

*Benefits Provided* - Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

*Contributions* - Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a district contribution of 18.68% of the employee's total compensation subject to contributions.

At June 30, 2017, the District reported the following for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used was based on an actuarial valuation as of June 30, 2016. At June 30, 2016 the District's proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2015 was .09361%.

District's proportionate share of the net	
CERS pension liability	<u>\$ 4,609,016</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE G – RETIREMENT PLANS (continued)

For the year ended June 30, 2017, the District's government-wide financial statements CERS pension expense of \$568,923. For the year ended June 30, 2017 the District recognized deferred outflows of resources, \$740,624, CERS, and deferred inflows of resources, CERS, \$94,050. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	20,122	-
Changes of assumptions	244,161	-
Net difference between projected and actual earnings on pension plan investments	433,295	-
Changes in proportion and differences between District contributions and proportionate share of contributions	43,046	94,050
District contributions subsequent to the measurement date	-	-
Total	<u>740,624</u>	<u>94,050</u>

*Actuarial Methods and Assumptions* - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2016. The financial reporting actuarial valuation as of June 30, 2016, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2016
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed
- Remaining Amortization Period – 28 years
- Asset Valuation method – 5-year smoothed market
- Inflation – 3.25%
- Salary increases, 4.00% including .75% wage inflation.
- Investment rate of return – 7.50%

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2017

*Actuarial Methods and Assumptions (continued)*

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table with Scale BB to 2013.

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CERS's investment consultant, are summarized as follows:

<u>Asset Class</u>	CERS Non-hazardous Target <u>Allocation</u>	Long-term Expected Nominal <u>Return</u>
Combined Equity	50.0%	5.30%
Intermediate Duration Fixed Income	11.0%	1.00%
Combined Fixed Income	11.0%	3.33%
Real Return (Diversified Inflation Strategies)	5.0%	4.25%
Real Estate	10.0%	4.00%
Absolute Return (Diversified Hedge Funds)	2.0%	8.00%
Private Equity	8.0%	3.15%
Cash Equivalent	3.0%	-0.25%
	100.0%	

*Discount Rate* – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2016 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

The following presents the District's proportionate share of net pension liability calculated using the discount rate of 7.50% as well as the District's share if calculated using a rate 1% higher and 1% lower:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of net pension liability	\$ 5,790,270	\$ 4,609,016	\$ 3,634,687

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017

*Pension plan fiduciary net position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report located at <https://kyret.ky.gov>.

There were no payables to the pension plan at June 30, 2017.

NOTE H – CONTINGENCIES AND COMMITMENTS

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The District was notified Kentucky School Board Insurance Trust was dissolved in previous years. As a result, assessments were proposed to be passed to local participating Districts based on past premiums or past claims. The District's total liability was \$629,945 to be paid in ten installments beginning September 1, 2015. This option calls for financing interest at 3.25%. Management will either fund the liability through its General account or request funds from its SEEK Capital Outlay allotment.

NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated including worker's compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Insurance for worker's compensation, errors and omissions, educator's legal liability, property (including vehicles) and general liability is carried through various agencies. Contributions to Workers' Compensation Insurance are based on premium rates established with the excess insurance carrier, subject to claims, experience modifications and a group discount amount. The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE L – DEFICIT OPERATING/FUND BALANCES

The following individual funds had deficit balances at June 30, 2017:

NONE

The following individual funds had operating expenditures in excess of revenues at June 30, 2017:

General Fund	751,761
Special Revenue Fund	28,307
Leslie County High School Activity Fund	20,649
WB Muncy Activity Fund	5,273

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay Fund	General Fund	Operating expenditures	72,448
FSPK Building Fund	General Fund	Operating expenditures	87,135
General Fund	Special Revenue Fund	Technology match	28,308
Capital Outlay Fund	Debt Service Fund	Debt service	78,050
General Fund	Special Revenue Fund	Operating expenditures	3,297
Special Revenue Fund	General Fund	Operating expenditures	3,298
FSPK Building Fund	Debt Service Fund	Debt service	1,091,265
Food Service Fund	General Fund	Indirect costs	66,787
General Fund	Construction Fund	Construction expenditures	30,123
			<u>1,460,711</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2017 were as follows:

None

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE P – ON-BEHALF PAYMENTS

Teacher's Retirement	1,138,580
Health Insurance	1,927,655
Life Insurance	3,232
Administrative Fees	25,655
HRA/Dental/Vision	91,263
Less: Federal Reimbursement	(197,588)
Technology	56,021
Debt Service	<u>699,851</u>
<u>Sub-Total</u>	3,744,669
Allocated to Debt Service Fund	(699,851)
Allocated to Food Service Fund	<u>(137,287)</u>
Allocated to General Fund	<u><u>2,907,531</u></u>

NOTE Q – ANNUAL FINANCIAL REPORT DIFFERENCES

The following reconciles June 30, 2017 fund balances as originally reported to the accompanying financial statements:

	General Fund	Special Revenue Funds	District Activity Fund	Capital Outlay Fund	FSPK Building Fund	Construction Fund	Food Service Fund
Fund Balance/Net Position as originally reported to the Department of Education	316,463	(7,308)	6,642	-	4,035	17,819	604,093
Adjustment to Fund Balance/Retained Earnings							
(1) To record additional accounts receivable	332,220	-	-	-	-	-	7,377
(2) To adjust accounts payable	(33,253)	-	-	-	-	-	-
(3) To adjust deferred inflows	-	-	-	-	-	-	(10,243)
(4) To adjust deferred outflows	-	-	-	-	-	-	80,654
(5) To adjust cash	(7,308)	7,308	-	-	-	-	-
(6) To adjust net pension liability	-	-	-	-	-	-	(501,922)
(7) To adjust net fixed assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,361,607</u>
Fund Balance/Net Position per fund financial statements at June 30, 2017	<u><u>608,122</u></u>	<u><u>-</u></u>	<u><u>6,642</u></u>	<u><u>-</u></u>	<u><u>4,035</u></u>	<u><u>17,819</u></u>	<u><u>1,541,566</u></u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2017NOTE R – FUND BALANCE CLASSIFICATIONS

The District implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications will include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* - fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2017:

<b>Fund Balances</b>	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Other Funds</u>	<u>Total</u>
Restricted - other	-	-	21,854	21,854
Assigned fund balance	16,861	-	6,642	23,503
Unassigned fund balance	<u>591,261</u>	<u>-</u>	<u>-</u>	<u>591,261</u>
<u>Total fund balances</u>	<u>608,122</u>	<u>-</u>	<u>28,496</u>	<u>636,618</u>

The District's budget by State law must have a minimum 2% contingency. However, a separate contingency reserve fund has not been established. The Statement of Net Position reflects reserves for fixed assets.

NOTE S – BEGINNING FUND BALANCE RESTATEMENT

Beginning cash balance was reallocated in the amount of \$529. This amount was moved from Fund 1 – General Fund to Fund 360 – Construction Fund.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE  
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2017

	<u>Budgeted Amounts</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
<b>Revenues:</b>				
From local sources:				
Taxes	3,134,526	3,076,325	2,588,436	(487,889)
Earnings on investments	6,000	10,000	9,297	(703)
Other local revenue	12,000	47,000	57,833	10,833
Intergovernmental - state	10,976,440	10,789,478	10,648,144	(141,334)
Intergovernmental - indirect federal	25,000	25,000	34,006	9,006
<b><u>Total revenues</u></b>	<u>14,153,966</u>	<u>13,947,803</u>	<u>13,337,716</u>	<u>(610,087)</u>
<b>Expenditures:</b>				
Instructional	7,510,277	7,545,965	7,492,333	53,632
Student support services	960,952	949,273	824,434	124,839
Staff support services	754,026	760,773	671,163	89,610
District administration	314,785	322,785	416,268	(93,483)
School administration	932,262	980,989	965,671	15,318
Business support	228,282	231,936	235,346	(3,410)
Plant operations and maintenance	1,776,768	1,792,123	1,689,126	102,997
Student transportation	1,395,567	1,363,480	1,444,446	(80,966)
Community service activities	6,869	7,155	11,153	(3,998)
Employee benefits	109,204	134,969	164,103	(29,134)
Debt service	130,738	190,726	175,434	15,292
Contingency	1,060,345	685,761	-	685,761
<b><u>Total expenditures</u></b>	<u>15,180,075</u>	<u>14,965,935</u>	<u>14,089,477</u>	<u>876,458</u>
Excess (deficit) of revenues over expenditures	<u>(1,026,109)</u>	<u>(1,018,132)</u>	<u>(751,761)</u>	<u>266,371</u>
<b>Other financing sources (uses):</b>				
Bond proceeds and other debt financing	-	-	179,770	179,770
Operating transfers in	71,000	68,540	229,668	161,128
Operating transfers out	(96,391)	(36,403)	(61,728)	(25,325)
Gain (loss) on sale of assets	1,500	1,500	-	(1,500)
<b><u>Total other financing sources (uses)</u></b>	<u>(23,891)</u>	<u>33,637</u>	<u>347,710</u>	<u>314,073</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(1,050,000)</u>	<u>(984,495)</u>	<u>(404,051)</u>	<u>580,444</u>
<b>Fund balance - July 1, 2016 - restated</b>	<u>1,050,000</u>	<u>956,183</u>	<u>1,012,173</u>	<u>55,990</u>
<b>Fund balance - June 30, 2017</b>	<u>-</u>	<u>(28,312)</u>	<u>608,122</u>	<u>636,434</u>

Notes:

Actual state revenue and expenditures for the year end includes \$2,907,531 in State on-behalf payments.  
See notes to financial statements and Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2017

	Budgeted Amounts			Variance Favorable
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Unfavorable)</u>
<b>Revenues:</b>				
Revenues from local sources	-	167,902	88,160	(79,742)
Intergovernmental - state	1,113,914	1,217,223	1,064,691	(152,532)
Intergovernmental - indirect federal	<u>2,183,166</u>	<u>2,354,433</u>	<u>2,551,693</u>	<u>197,260</u>
<b><u>Total revenues</u></b>	<u>3,297,080</u>	<u>3,739,558</u>	<u>3,704,544</u>	<u>(35,014)</u>
<b>Expenditures:</b>				
Instructional	2,647,844	2,982,194	2,949,854	32,340
Student support services	2,736	16,200	92,266	(76,066)
Staff support services	189,170	194,364	212,810	(18,446)
Business support services	54,740	54,740	55,623	(883)
Plant operations and maintenance	102,386	179,952	48,963	130,989
Student transportation	128,750	142,426	159,304	(16,878)
Community service activities	239,077	207,857	211,354	(3,497)
Other	<u>-</u>	<u>540</u>	<u>2,677</u>	<u>(2,137)</u>
<b><u>Total expenditures</u></b>	<u>3,364,703</u>	<u>3,778,273</u>	<u>3,732,851</u>	<u>45,422</u>
Excess (deficit) of revenues over expenditures	<u>(67,623)</u>	<u>(38,715)</u>	<u>(28,307)</u>	<u>10,408</u>
<b>Other financing sources (uses):</b>				
Operating transfers in	67,623	36,403	31,605	(4,798)
Operating transfers out	<u>-</u>	<u>-</u>	<u>(3,298)</u>	<u>(3,298)</u>
<b><u>Total other financing sources (uses)</u></b>	<u>67,623</u>	<u>36,403</u>	<u>28,307</u>	<u>(8,096)</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	(2,312)	-	2,312
<b>Fund balance - July 1, 2016</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balance - June 30, 2017</b>	<u><u>-</u></u>	<u><u>(2,312)</u></u>	<u><u>-</u></u>	<u><u>2,312</u></u>

See notes to financial statements and Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY  
AND SCHEDULES OF EMPLOYER CONTRIBUTIONSFor the Year Ended June 30, 2017**Employer's Proportionate Share of Net Pension Liability**

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>
Employer's proportion of the net pension liability	0.2346%	0.0936%	0.2274%	0.0971%	0.2768%	0.0943%
Employer's proportionate share of the net pension liability	-	4,609,016	-	4,175,700	-	3,061,000
State's proportionate share of the net pension liability	69,197,223	-	52,910,151	-	56,888,839	-
Employer's covered employee payroll	8,519,109	2,284,631	8,589,419	2,801,591	8,330,224	2,204,566
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	812%	202%	616%	149%	683%	139%
Plan fiduciary net position as a percentage of the total pension liability	35.2%	55.5%	42.5%	60.0%	45.6%	66.8%

**Employer's Contributions**

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>
Contractually required contribution	1,138,580	265,952	1,094,254	289,967	1,738,553	408,862
Contributions in relation to the contractually required contribution	1,138,580	273,726	1,094,254	288,908	1,738,553	408,862
Contribution deficiency (excess)	-	(7,774)	-	1,059	-	-
District's covered employee payroll	8,519,109	2,284,631	8,589,419	2,801,591	8,330,224	2,204,566
Contributions as a percentage of covered employee payroll	13.37%	11.98%	12.74%	10.31%	20.87%	18.55%

Change of benefit terms - None.

Changes of assumptions - CERS change in 2016, \$244,161.

See notes to financial statements and Independent Auditors' Report.

LESLIE COUNTY SCHOOL DISTRICTBALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDAt June 30, 2017

	<u>District Activity Fund</u>
<b>Asset and resources:</b>	
Cash and cash equivalents	6,642
Accounts receivable	<u>-</u>
<b>Total Assets</b>	<u><u>6,642</u></u>
<b>Liabilities and fund balances:</b>	
- Liabilities -	
Accounts payable	<u>-</u>
<b>Total Liabilities</b>	<u>-</u>
- Fund balances -	
Assigned - other	<u>6,642</u>
<b>Total fund balances</b>	<u>6,642</u>
<b>Total liabilities and fund balances</b>	<u><u>6,642</u></u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – NONMAJOR SPECIAL REVENUE FUNDAt June 30, 2017

	<u>District Activity Fund</u>
<b>Revenues:</b>	
From local sources:	
Student activities	3,658
<b><u>Total revenues</u></b>	<u>3,658</u>
<b>Expenditures:</b>	
Instruction	1,995
Instructional staff support	984
<b><u>Total expenditures</u></b>	<u>2,979</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>679</u>
Other financing sources (uses):	
Operating transfers in	-
Operating transfers out	-
<b><u>Total other financing sources (uses)</u></b>	<u>-</u>
<b>Excess (deficit) of revenues and other financing sources over expenditures and other financing uses</b>	679
Fund balance, July 1, 2016	5,963
Fund balance, June 30, 2017	<u><u>6,642</u></u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – OTHER NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2017

	<u>SEEK Capital Outlay Fund</u>	<u>Building Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<b>Asset and resources:</b>					
Cash and cash equivalents	-	4,035	17,819	-	21,854
Accounts receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets and resources</b>	<u>-</u>	<u>4,035</u>	<u>17,819</u>	<u>-</u>	<u>21,854</u>
<b>Liabilities and fund balances:</b>					
Accounts payable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
- Fund balances -					
Restricted for SFCC	-	4,035	-	-	4,035
Restricted for future construction	<u>-</u>	<u>-</u>	<u>17,819</u>	<u>-</u>	<u>17,819</u>
	<u>-</u>	<u>4,035</u>	<u>17,819</u>	<u>-</u>	<u>21,854</u>
<b>Total liabilities and fund balances</b>	<u>-</u>	<u>4,035</u>	<u>17,819</u>	<u>-</u>	<u>21,854</u>

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES – OTHER NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2017

	SEEK Capital Outlay Fund	FSPK Building Fund	Construction Fund	Debt Service Fund	Total
<b>Revenues:</b>					
From local sources:					
General real property tax	-	555,870	-	699,851	1,255,721
Intergovernmental - State	<u>150,498</u>	<u>626,565</u>	<u>-</u>	<u>-</u>	<u>777,063</u>
<b><u>Total revenues</u></b>	<u>150,498</u>	<u>1,182,435</u>	<u>-</u>	<u>699,851</u>	<u>2,032,784</u>
<b>Expenditures:</b>					
Building acquisition and construction	-	-	158,139	-	158,139
Building improvements	-	-	50,315	-	50,315
Bond principal	-	-	-	1,292,356	1,292,356
Bond interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>576,810</u>	<u>576,810</u>
<b><u>Total expenditures</u></b>	<u>-</u>	<u>-</u>	<u>208,454</u>	<u>1,869,166</u>	<u>2,077,620</u>
<b>Excess (deficit) of revenues over expenditures</b>	<u>150,498</u>	<u>1,182,435</u>	<u>(208,454)</u>	<u>(1,169,315)</u>	<u>(44,836)</u>
Other financing sources (uses):					
Operating transfers in	-	-	30,123	1,169,315	1,199,438
Operating transfers out	<u>(150,498)</u>	<u>(1,178,400)</u>	<u>-</u>	<u>-</u>	<u>(1,328,898)</u>
<b><u>Total other financing sources (uses)</u></b>	<u>(150,498)</u>	<u>(1,178,400)</u>	<u>30,123</u>	<u>1,169,315</u>	<u>(129,460)</u>
<b>Changes in fund balance</b>	-	4,035	(178,331)	-	(174,296)
Fund balance, July 1, 2016 - restated	<u>-</u>	<u>-</u>	<u>196,150</u>	<u>-</u>	<u>196,150</u>
Fund balance, June 30, 2017	<u>-</u>	<u>4,035</u>	<u>17,819</u>	<u>-</u>	<u>21,854</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCELESLIE COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2017

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	Excess (Deficit) of <u>Revenues over Expenditures</u>	<u>Fund Balance</u> <u>July 1, 2016</u>	<u>Fund Balance</u> <u>June 30, 2017</u>
General Fund	5,755	6,719	(964)	1,124	160
Parking	800	690	110	61	171
Teacher Vending	5,050	6,199	(1,149)	1,617	468
National Honor Society	-	-	-	131	131
Art	500	-	500	546	1,046
Drama Club	691	302	389	421	810
Archery	-	80	(80)	1,402	1,322
Student Council	-	140	(140)	326	186
Greenhouse	300	620	(320)	378	58
Create	-	-	-	400	400
Extracurricular	77,059	72,038	5,021	10,429	15,450
Emergency Extracur	-	1,820	(1,820)	7,126	5,306
Academics	3,519	3,858	(339)	1,369	1,030
Band	13,869	13,092	777	222	999
Baseball	3,825	6,360	(2,535)	2,841	306
Boys Basketball	15,279	20,432	(5,153)	5,706	553
Football	4,200	5,376	(1,176)	1,189	13
Cheerleaders	6,615	5,862	753	40	793
Girls Basketball	18,360	23,512	(5,152)	5,262	110
Softball	1,865	2,482	(617)	2,999	2,382
Track	8,264	8,269	(5)	12	7
Volleyball	18,948	15,978	2,970	5,504	8,474
Cross Country	3,776	3,209	567	143	710
Senior Class	50,957	50,957	-	-	-
Junior Class	3,455	5,260	(1,805)	3,506	1,701
Sophomore Class	400	611	(211)	611	400
Freshman Class	-	-	-	-	-
Journalism	9,045	19,542	(10,497)	10,932	435
Project Sober	1,540	1,335	205	750	955
Children Inc	243	221	22	196	218
<u>Sub-total</u>	254,315	274,964	(20,649)	65,243	44,594
Less: Interfund transfers	<u>18,920</u>	<u>18,920</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total</u>	<u>235,395</u>	<u>256,044</u>	<u>(20,649)</u>	<u>65,243</u>	<u>44,594</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2017

	Hayes Lewis Elementary	Mountain View Elementary	Stinnett Elementary	W.B. Muncy Elementary	Total (Memorandum Only)
<u>REVENUES:</u>					
Activity funds	54,938	79,229	72,436	35,232	241,835
<u>EXPENDITURES:</u>					
Activity funds	<u>52,426</u>	<u>76,878</u>	<u>69,335</u>	<u>40,505</u>	<u>239,144</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	2,512	2,351	3,101	(5,273)	2,691
Fund Balance July 1, 2016	<u>20,967</u>	<u>25,498</u>	<u>25,789</u>	<u>10,071</u>	<u>82,325</u>
Fund Balance, June 30, 2017	<u><u>23,479</u></u>	<u><u>27,849</u></u>	<u><u>28,890</u></u>	<u><u>4,798</u></u>	<u><u>85,016</u></u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Passthrough to Subrecipients</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- Child Nutrition Cluster -				
School Breakfast Program	10.553	7760005	N/A	<u>269,339</u>
School Lunch Program	10.555	7750002	N/A	<u>752,565</u>
Summer Food Service Program for Children	10.559	7690024	N/A	1,323
	10.559	7740023	N/A	12,846
				<u>14,169</u>
Passed through State Department of Agriculture:				
School Lunch Program Commodities (non-cash assistance)	10.555	066-0100	N/A	<u>73,046</u>
Total Child Nutrition Cluster				<u>1,109,119</u>
<u>Total U.S. Department of Agriculture</u>				<u>1,109,119</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
- Title I				
	84.010	310B	N/A	93,044
	84.010	310C	N/A	770,401
	84.010	310A	N/A	3,146
	84.010	310AM	N/A	2,909
	84.010	310BM	N/A	5,742
	84.010	320CE	N/A	233,001
<u>Total Title I</u>				<u>1,108,243</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Passthrough to Subrecipients</u>	<u>Program Expenditures</u>
-Special Education Cluster -				
IDEA - B Basic	84.027	337C	N/A	347,757
	84.027	337B	N/A	245,373
Special Education - Preschool	84.173	343B	N/A	298
	84.173	343C	N/A	<u>6,642</u>
Total - Special Education Cluster				<u><b>600,070</b></u>
Rural/Low Income School Program	84.358	350C	N/A	28,082
	84.358	350B	N/A	<u>7,226</u>
				<u><b>35,308</b></u>
Improving Teacher Quality State Grants	84.367	401C	N/A	206,029
	84.367	401B	N/A	<u>14,210</u>
				<u><b>220,239</b></u>
Passed through Berea College:				
Gear Up	84.334A	379CG	N/A	<u><b>119,188</b></u>
- Direct -				
21st Century Learning Centers	84.287A	550A	N/A	13,769
	84.287A	550BC	N/A	82,090
	84.287A	550AM	N/A	31,842
	84.287A	550BM	N/A	119,145
	84.287A	550AU	N/A	13,019
	84.287A	550BX	N/A	54,488
	84.287A	550AX	N/A	47,368
	84.287A	550BJ	N/A	2,644
	84.287A	550BL	N/A	<u>106,494</u>
				<u><b>470,859</b></u>
<u>Total Department of Education</u>				<u><b>2,553,907</b></u>
<u>Total Federal Awards Expended</u>				<u><u><b>3,663,026</b></u></u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2017

## Note 1—Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Leslie County School District, under programs of the federal government for the year ended June 30, 2017 in accordance with the requirements of Title 2 U.S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Leslie County School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of Leslie County School District.

## Note 2—Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance\*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Leslie County School District has not elected to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

\*Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

## Note 3 – Non-Monetary Assistance

Non-monetary assistance CFDA #10.555, \$73,046, is reported in the schedule at the fair value of the food donations disbursed.

See Independent Auditor's Report.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State Committee for School District Audits  
Members of Leslie County Board of Education  
Hyden, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School Districts Audit Contract Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Leslie County School District's basic financial statements, and have issued our report thereon dated November 6, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Leslie County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leslie County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Leslie County School District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Leslie County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Leslie County School District, in a separate letter dated November 6, 2017. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky Public School District's Audit Contract and Requirements – State Compliance Requirements.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 6, 2017

**Chris Gooch**  
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE

To Board Members  
Leslie County School District

**Report on Compliance for Each Major Federal Program**

We have audited Leslie County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Leslie County School District's major federal programs for the year ended June 30, 2017. Leslie County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Leslie County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Leslie County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Leslie County School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Leslie County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### Report on Internal Control Over Compliance

Management of Leslie County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Leslie County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Leslie County School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 6, 2017

LESLIE COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSFor the Year Ended June 30, 2017

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2017- SUMMARY OF AUDIT RESULTS -

1. We have issued an unmodified opinion on the financial statements.
2. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under section 200.516 of Title 2 U.S. Code of Federal Regulations Part 200.
7. Leslie County School District had the following major programs:
  - U.S. Department of Agriculture
  - Passed through State Departments of Education and Agriculture -
  - Child Nutrition Cluster -
  - School Lunch and Breakfast Program, Summer Food Service
  - CFDA numbers 10.553, 10.555 and 10.559
8. The dollar threshold used to distinguish between major and non-major programs was \$750,000.
9. The auditee qualified as a low-risk auditee under section 200.520 of Title 2 U.S. Code of Federal Regulations Part 200.

Findings Related to the Financial Statements

– NONE –

Findings and Questioned Costs for Federal Awards

– NONE –

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Leslie County Board of Education  
Hyden, Kentucky

In planning and performing our audit of the financial statements of Leslie County School District for the year ended June 30, 2017, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 6, 2017, contains our report on the District's internal control structure. This letter does not affect our report dated November 6, 2017 on the financial statements of the Leslie County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", with a stylized, cursive script.

Chris Gooch  
Certified Public Accountant

Hazard, Kentucky

November 6, 2017

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2017**Prior Year Comments**

1. The District should assure concession sales are accompanied by prescribed reconciliation forms allowing controls over inventory purchases and assessment of profits.

*Management response:*

*The District provided supplemental reconciliation forms to assist applicable personnel at each school location in reconciling to prescribed forms.*

**Current Year Comments**

1. We noted for a test sample of concession reports at Leslie County High School only a supplemental schedule of cash received was used. However, no reconciliation of inventory was documented.

*Management response:*

*Application and documentation of the prescribed inventory control form to assure reconciliation of purchases for concession use will be emphasized to all applicable personnel.*